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THE ROLE OF TRANSNATIONAL BANKS AND FINANCIAL INSTITUTIONS IN AFRICA'S DEVELOPMENT PROCESS

This paper was prepared by a Consultant to ECA. The views expressed herein are those of the author and do not necessarily represent the view of this organization.

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I. INTRODUCTION

1. During the 1960's and 1970's, following independence, most African States tried, by legislation, to regulate the activities of the banking and financial institutions operating in their countries. Attention was particularly focussed on the dominant transnationals, whose function was to service expatriate businesses and maximise profits for the parent companies. The new regulations had two objectives: first to increase the share of business accruing to nationally owned enterprises, so stemming the outflow of national resources; secondly to "influence the allocation of credit within the context of the country's development plans". 1/

2. The same period saw a tremendous international expansion of production by the international corporations, closely followed by the expansion of transnational banks and financial institutions, to provide the services required particularly since the oil crisis of 1973, these institutions have acted as major intermediaries for the flow of petro-dollars to developing countries. This has not only had considerable impact on the economies but has also led to the current debt crisis in much of the developing world, not excluding Africa.

3. Against this background, this paper aims at define the role played by the Transnational Banks and financial institutions in the economic development process in Africa. Sample studies were carried out on the banking and financial institutions in several countries and available information on several others was used. The paper, therefore, is not exhaustive, nor does it cover the individual facets of each country. A lack of data on the various spheres of operation of the Transnationals, and the difficulty of eliciting material specific to the transnationals from the total aggregate of information, have made the study difficult, and have affected the findings; nevertheless it is hoped that the major results will be of assistance to policy-makers in the various countries.

4. In accordance with the definition of the United Nations Centre on Transnational Corporations, Transnational banks are classed as those "with branches or subsidiaries (either majority or minority owned) in five or more different countries". The foreign establishment consists of "branches which are treated as an integral part of the bank subsidiaries which are separate corporations, wholly or partly owned by the parent; affiliates which are corporations in which the bank owns less than a majority of the equity; and representative offices, which are generally small agencies without a separate corporate identity."2/ The

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1/ United Nations Commission on Transnational Corporations, "The regulation of Transnational Banks in Developing Countries, (E/E10/1982/13), 1981, P.8.

2/ United Nations Commission on Transnational Corporations, Transnational Banks: Operation, Strategies and their effect in developing countries,(ST/CTC/16) 1981, pp. 3-4.

same classification may be applied to financial institutions, except that insurance/re-insurance companies might have agents or brokers instead of representative offices.

II. A SURVEY OF THE STRUCTURE AND OWNERSHIP OF THE BANKING AND FINANCIAL INSTITUTIONS IN AFRICA AND THE SHARE OF THE TRANSNATIONALS

5. The banking and financial institutions can be classified under the following broad categories:-

A. Central Banks
B. Commercial Banks
C. Merchant Banks
D. Development Banks and Financial institutions
E. Insurance and Reinsurance Institutions
F. Other Financial Institutions

A. Central Banks

6. Apart from a few very small countries such as Reunion, the Comoros and Djibouti which have currency issuing institutions only, most countries have a national central banks, or the agencies of a common regional central bank. The former French West African countries: Benin, Ivory Coast, Niger, Senegal, Togo and Burkina Faso chose a common central bank - the "Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) - and the Central African States of Cameroon, Gabon, Chad and the Central African Republic established the "Banque des etats de l'Afrique Centrale (BEAC). Both work under the general guidance of France, which is represented in both headquarters.

7. These regional central banks, however, exhibit certain peculiarities. The BCEAO and BEAC countries, together with Mali (also a former French colony), have a common currency within the Franc Zone. The Franc C.F.A., originally the "Franc des Colonies Francaises d'Afrique" became the "Franc de la Co-operation Financiere en Afrique" after the independence of the French colonies of Africa. The exchange rate is fixed to the French franc and convertible, to any currency is guaranteed by the French Treasury. The return the central banks maintain at least 65 per cent of their foreign exchange reserves with the French Treasury and they operate through the Paris exchange monetary and credit policies are influenced by France because of the operational agreements between each individual country and France, although each has its own banking, exchange control and trade laws. Free convertibility of currency within the Franc Zone, also implies considerable French influence.

8. In Liberia, although there has been a central bank since 1974, there is no national currency; the US dollar is used, which causes problems for the smooth running of the central bank.

9. Lesotho and Swaziland are also unusual; together with South Africa, they form the Rand monetary area, and although in theory they are free to act independently, the currency authorities do suffer some limitations.

B. Commercial Banks

10. The Transnational Banks of the colonial powers of Africa - Britain, France, Belgium, Portugal and Italy - had branches or subsidiaries in most of the colonies. Apart from some instances of closure following nationalisation, they have continued to operate. Since the Second World War, and especially after 1960, the wave of banking expansion from countries such as the USA, West Germany and Japan has resulted in the setting up of new entities.

11. Ten countries only have nationalized banking, two expelling foreign banks - Benin, Ethiopia, Guinea, Libya, Madagascar, Somalia, Tanzania, Angola, Algeria and Mozambique. Mozambique, however, allowed one subsidiary of the Standard and Chartered Bank (UK) to remain after nationalisation. In 1974, Egypt which had expelled foreign-banking interests, announced a new open-door policy to banking and joint ventures. At the same time, Algeria also relaxed controls and formed the Algeria-Libya Bank in 1974, the Algeria-France Bank, with six French partners in 1975 and a joint Italian Commercial Bank in 1981.

12. In all other countries, foreign banks are accepted, either as branches, incorporated as subsidiaries, as affiliates, or as joint ventures with government or private support. At the request of the transnationals a number of countries have allowed the establishment of representative offices: for example, Nigeria, Ivory Coast, Gabon and Senegal. Furthermore, almost all countries have encouraged, established or expanded national banks which are fully or partially owned by the government or by private interests.

13. Table 1 shows the country representation of transnational commercial banks and their country of origin (See Page 6 for table and source).

14. British banks dominate the English speaking areas and French banks in Francophone countries. The other major banking interests are US, German and Italian. In Africa, 80 per cent of the entities of transnational banks based in the Untied Kingdom are found in English-speaking countries, while almost 70 per cent of the entities from France are concentrated in French-speaking countries. 3/ Each entity in every country may have a number of branches.

15. The total number of entities, and the proportion of their belonging to the transnationals in any one country is not known. It would seem, however, on the basis of studies in Nigeria, Liberia and Ivory Coast, and also available statistics on Kenya, Zimbabwe, Cameroon and Gabon, that the transnationals dominate the market numerically. They also seem dominant in the overall control of resources, for example, in Nigeria, 73.9 per cent of deposits at the end of 1982 were held by transnational affiliates and in Kenya, the figure was 66.6 per cent.

16. The transnationals are still keen to have move into new markets: for example, the Bank of Credit and international Commerce of Luxembourg has established 21 entities since 1976, and numerous banks have moved into Egypt, since the inception of the open-door policy.

3/ E/CIO/1982/13, P.3.

17. In recent years most countries have relaxed their regulations relating to the transnational banks. "This is partly as a result of the worsening of the world economic recession and the desire of these countries to attract foreign investment in order to increase their levels of economic activity." 4/

C. Merchant Banks

18. According to M.A. Odle, "since the second wave of multinational banking penetration and the subsequent disenchantment with the effects, there has been a spare of merchant banks, trust companies and mortgage and realty companies, most being offshoots of existing multinational commercial banks". 5/ In Africa, this is only apparent in Nigeria, Kenya and Zimbabwe. There is some participation by government, national banks and development companies in the activities of the merchant banks, but in almost all there is also transnational banking activity.

19. The merchant banks seem to have had little impact, partly because merchant banking services are offered by the commercial banks, and partly as a result of the world economic recession, following the oil crisis of 1973. Consequently, most function as commercial banks. In all spheres, however, the transnational association results in transnational dominance.

D. Development Banks and Financial Institutions

20. Following closely upon independence, most former colonies established development banks and government assisted investment companies to develop the industrial sector. Initially this was with World Bank encouragement, often through the International Finance Corporation (IFC), a World Bank subsidiary for promoting private sector investment. Both Nigeria and Liberia benefitted from this participation. According to IFC policy, the private sector was to be a partner; therefore the banks and financial institutions within the country, including the transnationals were encouraged to entertain shareholding.

21. Initially, lending was to expatriate firms, but with the tide of nationalism and the greater insistence on loans to nationals, the transnationals lost interest ard left further activity to government and local institutions. As a result, state participation in development banks and financial institutions grew and there was increasing reliance on government finance and support from international financial institutions.

22. Agricultural credit had been neglected, and so often separate national agricultural development banks began to be established in which the transnationals were hardly involved.

4/ E/C 10/1982/13 p.10

5/ Odle, Maurice A, Multinational banks and underdevelopment (Pergamon Policy Studies), Pergamon Press Oxford, 1981, P. 104.

23. The result is a host of development banks, to finance industry, agriculture, housing, investment and finance, existing in almost every country. Most are owned directly by the government or indirectly through parastatals; some have transnational involvement, but rely entirely on government finance or support from the international institutions such as the IBRD. Most are not in a position to raise funds on the capital markets, partly because of poor performance, but mainly of a lack of capital markets, a lack of expertise in floating instruments and the reluctance of transnational banks and institutions to invest.

24. Some regional development banks such as the African Development Bank, the East African Development Bank and those in West and Central African francophone countries originated in the 1960's and 1970's. Again they rely on institutions such as the World Bank, the European Development Bank and transnational investment banks for funds. They have tried to tap the Euro-dollar market. The drawback is that "some of the multinational banks, supplying funds to the regional banks, stipulate" the required capital structure of the bank, the interest rate spread (or rate of return), the form of on-lending, the country of procurement, the nature of the project and the sort of risk that should be entertained". 6/

25. Simultaneously, institutions such as the Export-Import Bank of the USA, KFW of West Germany, CCCE of France, the Overseas Development Agency and the Commonwealth Development Corporation of the UK, all with State ownership or backing, emerged to finance development projects; such finances are routed through the development banks of the relevant country.

26. The transnationals have also opened investment finance subsidiaries wherever it was considered worthwhile: for example Barclay opened Barclays National Investment Private with five subsidiaries in South Africa; the Standard Chartered Bank Limited set up Standard Finance, Viking Finance and Standard Trust Company in Zimbabwe, the National Investment Bank in Ghana, National Industrial Credit Limited in Uganda and Standard Bank Investment Corporation Limited with 22 subsidiaries in South Africa.

E. Insurance and Reinsurance Institutions

27. Insurance was another area of net resource outflow prior to independence; life cover was little developed, and most business concerned foreign trade, with underwriting being done overseas, and claims settled from outside. Business was carried out through agents, until it became worthwhile to establish branches. At the end of the Second World War, there were few branches, the volume of locally underwriter insurance was very low, what business there was handled by the agents of British or French based companies and there was practically no legislative control.

6/ Odle, Op cit., P. 106

28. Change came during the 1960's, particularly after independence, and after 1964 with UNCTAD guidance. Initial regislation was directed largely towards the protection of shareholders and policy-holders; this was closely followed by licensing and local incorporation aimed at the national retention of premiums on local risks, and the founding of national companies, with or without state participation.

29. The prescribed capital requirements were small, which encouraged a number of private companies. The transnationals in the field either opted for incorporation, withdraw to concentrate on re-insurance, or established re-insurance agents and brokers. Several countries either nationalised insurance or prohibited foreign companies.

30. Table I shows the position as it appears now:-

Table I - Structure of Insurance Markets in the various Countries of Africa

	State Monopoly	Foreign Participation eliminated	Foreign Participation allowed	No Information	Total No. of Countries
English Speaking	4	1	15	1	21
French Speaking	8	-	13	-	21
Ex-Portuguese Colonies	3	-	-	2	5
Ex-Belgian and Spanish colonies	3	-	-	1 (Equatorial Guinea)	4
Total	18	1	28	4	51

Source: "The World Insurance at the end of 1970's" UNCTAD, 1981.

31. The table also shows that there is a great degree of nationalisation in insurance than in banking. Furthermore, in areas where participation is allowed, there is considerable state ownership or interest. It is often stipulated that re-insurance must be effected at least partially through state-owned companies.

Legislation is more comprehensive and localisation more advanced. According to some recent statistics, the number of direct insurance companies operating in Africa is 409, of which 114 are foreign undertaking. 7/ The majority are undoubtedly from Britain and Rance, but a number of US, German and Swiss companies have entered the market, as branches and affiliates or through agents and brokers.

32. Before independence there was little emphasis on life insurance, since transnationals were more interested in profitable non-life, and it remains a very small proportion of total insurance in Africa. Transnationals operate in areas where there are large numbers of expatriates: elsewhere it is left to the local institutions; the legislation that premium on local risks should be retained locally seems to discourage transnationals.

33. Transnational interest continues, however, in non-life, since it is a sphere in which national institution have neither the resources nor the expertise. Whereas they can underwrite and retain premium on small risks, such as motor vehicles, burglary or workers compensation, they are unable to retain layer risks, such as oil wells, terminals and refineries; marine hull; aviation and large engineering projects; even though local underwriting may be specified by legislation. If transnationals cannot underwrite nationally and freely re-insure internationally, they have begun to concentrate purely on re-insurance. The national insurance companies are forced to do business with these transnationals, since they can handle large risks. Many insurance and re-insurance agents and brokers operate in countries where direct transnational operation is difficult; including those where insurance is a state monopoly. Even in a country such as Nigeria where insurance is relatively more developed and where there are restrictions on re-insurance, "almost all the leading international professional re-insurances from all over the world operate..." 8/ The post-independence developments have only altered the transnational markets from insurance to re-insurance; an aspect which will be discussed further in Chapter III.

34. In order to retain as much premium as possible, some countries have created re-insurance corporations, through which all outside re-insurance must be routed, others have laid down a certain percentage or re-insurance to be placed with national corporations, as in Nigeria and Kenya. On the initiative of the African Development Bank, an African Reinsurance Corporation was inaugurated on January 1st 1978; signatory countries agreed to a 5 per cent compulsory reinsurance of Company Treaties. Certain pools have also begun to operate, such as the Arab pool, and the Afro-Asian pool. The progress of operation in Africa is, however, very slow, for several reasons: a lack of adequate capital and reserves; a lack of expertise, experience and trained man-power; and foreign exchange difficulties resulting from the failure of member countries to remit premium in time.

35. Several developments have tended to neutralise legislation designed to retain premium locally; among the most important are:

7/ Fair Review, (Federation of Afro-Asian Insurers and Re-insurers), March 1984

8/ Fair Review, Op cit, December 1981. United Nations Commission for Trade and Development.

(i) Even as minority shareholders, "transnationals often impose their will on foreign affiliates to re-insure with the parent companies - in fact reinsurance decisions are often not allowed to be taken independently." 9/

(ii) Re-insurers seem to be adopting a cartel policy to secure a larger share of locally underwriter premium.

(iii) Through the transnational corporations with whom they are associated, local institutions pressurize even governments to part with premium and permit illegal outflow. 10/

(iv) Transnational banks, such as the Standard and Chartered Bank, have acquired insurance subsidiaries; thus from a position of strength they are aisle to specify that borrowers take out their insurance with particular companies.

(v) Insurance and re-insurance corporations often take out general policies with a transational in the home country, thus avoiding local insurance; a share of the premium is allocated to the corporation subsidiary and the country concerned is forced to allow remittance.

(vi) In an attempt to synthesize insurance and industry, a number of transnational corporations have established "captive" insurance and re-insurance companies, whereby ownership is in the hands of either a holding company or by corporations belonging to the same transnational group; for example, the UNILEVER group of UK owns an insurance company.

36. Thus, the movement has been from insurance towards re-insurance, with transnationals dominating the market and affecting a large overflow of African resources.

F. Other Financial Institutions

37. This category comprises a host of national and regional financial institutions serving in both operational and advisory capacities; including acceptance and discount houses; finance houses providing finance for hire-purchase, leasing, mortgage and investment; investment companies, including financial holding companies; mortgage and property investment companies; financial consultants; financial trust investment and advisory companies. The foreign banks, insurance companies and transnational corporations circumvent their restrictive legislation by operating through institutions such as those listed above, which are subject to fewer restrictions.

9/ United Nations Commission for Trade and Development, "Insurance in developing countries: Developments in 1975-76.

10/ United Nations Commission for Trade and Development, Op cit, p. 25-26.

38. There is considerable transnational ownership of or interest in these institutions. Acceptance and discount houses in Kenya and Zimbabwe are either owned by or affiliated to transnationals East African Acceptances too is affiliated to Barclays; Bard Discount House and discount Ltd., both of Zimbabwe are affiliated to the Standard Chartered Bank of UK and Grindlays hominees (Kenya) Ltd. and Grindlay hominees in Zambia and Zimbabwe are affiliated to Grindlay Bank. Similarly, a number of car leasing companies in West and Central African have been operating with French companies and banks investment trusts and holding companies are owned by numerous banks; Standard, Barclays, Credit Lyonnais and teh Banques de l'Indochine et de Suez; and by insurance companies; Royal insurance Commercial Union Assurance of UK and the Union des Assurances de Paris. Standard Bank has insurance subsidiaries 11/ and UNILEVER operates investment and insurance companies.

39. A difficulty arises in trying to define the structure of business and share of the transnationals in these multifamous activities, since few data are either collected or published by the different African governments and central banks. The central banking authorities of Nigeria, for example, admitted that hardly any contact is exercised on the non-banking financial institutions, because of lack of information.

40. It would appear, however, that although direct operations may be limited, there is considerable indirect influence. Wherever transnationals are not allowed to operate directly, they work through nationals on whom they have considerable influence.

41. Although there has been a development of national institutions, it appears that the transnational banks and financial institutions still dominate financial resource management in Africa.

III. The operations of the different types of banks and financial institutions and the role and share of the transnationals

42. It is difficult to substantiate the role share of the transnationals in total operations, because of a lack of published data. The findings presented here are based on a few case studies and on the limited information available; they should, therefore, be viewed with caution.

43. Operations can be classified into two: domestic and international. Although a strict delineation is impossible, since they are often inter-related wherever possible, they will be considered separately.

11/ United Nations Commission for Trade and Development, Insurance in developing countries.

44. Financial institutions are usually intermediaries or risk-bearers such insurance and re-insurance companies. They operate for profit maximization, particularly when owned by private shareholders; a factor which must be borne in mind constantly while examining their operations.

A. Commercial Banks

1. Sources of Funds: (a) Capital and Reserves

45. With the exception of the new transnationals that have come to Africa since the 1950's from West Germany, the US, Italy and Japan, the majority of the transnationals have been operating since the colonial era. How much capital was brought in by these old banks and how much repatriated cannot now be quantified.

46. Since independence, legislation in various states has laid down the minimum capital requirements for foreign banks or joint ventures. In 1974, Sudan required foreign banks to bring in a minimum of Sudanese Pounds 3 million, or the participating percentage of share-holding. Similarly, in 1976, Nigeria prescribed for mixed banks, a maximum of 40 per cent foreign participation. In a minimum capital requirement of Niara 1.5 million. There is no figures available for the capital amounts brought in by the new transnationals before that date.

47. The rate of shareholders fund to deposits or to loans and advances, as prescribed in Nigeria, would appear usually to be met by capitalizing the reserves arising out of profits, or by raising capital locally; for example two of the leading Nigerian mixed banks -- the First Bank of Nigeria Limited and the United Bank of Africa Limited -- brought no capital into the country between 1979 and 1982, even though the capital and reserves, representing the shareholder's funds, had increased from N64.5 million (March 31, 1979) to N 153.6 million (December 31st 1982), and from N65.2 million (March 31, 1979) to N162.8 million (March 31st 1983) respectively.

48. As a percentage of total assets, the capital and reserves of the commercial banks would not usually be more than 3-5 per cent: as a source of funds, therefore, it is minor, and it is usually also accumulated from operational profit rather than by fresh capital injection from outside. Any capital that is brought in as investment usually multiplies itself many times over by retained earnings or the capitalisation of reserves: this, apart from remitted profits and dividends.

(b) Foreign Assets and Liabilities

49. The bulk of operating capital is generally raised by local deposits: this is supplemented by overseas capital from either the parent companies or other foreign banks, depending on the foreign exchange regulations. The amounts brought in by Deposit Banks between 1976 and 1982 are shown in Table II.

Table II - Long and Short Term Capital Brought from Outside By Deposit Banks in Africa (Millions of SDRS)

	1976	1977	1978	1979	1980	1981	1982
1. Other Long-term capital (Net) credit	22	50	4	11	67	40	29
2. Short-term capital (Net) credit	197	-31	108	6	368	713	609
Total	219	19	112	17	435	753	838

Source: Balance of Payments Statistics, Vol. 34, Yearbook, Para. 1983 - IMF.

50. Table II includes the operations of banks in South Africa, and those of national as well as transnational banks, since no break down of figures exists. If the South African figures could be eliminated, the small amount really entering Africa through the Commercial banks would become apparent.

51. "Long term capital" does not represent investments in deposit banks, rather it is other capital brought in by commercial banks on a long-term basis; its source and use is not clear. "Short-term" capital on the other hand, includes the receipts and payments on account of international trade: neither contributes to investment. The cost of such short-term capital is generally higher than that of long-term capital, which usually leads to a substantial outflow of resources.

52. The figures given are for Africa as a whole, and so they include those of countries whose legislation is sufficiently lack that "funds collected from local depositors are exported for investment abroad". 12/ Examples are Sierra Leone and the Ivory Coast.

(c) Deposits

53. Deposits usually constitute the most important source of funds for any bank. As a percentage of the Gross Domestic Product, they give a limited indication of the extent to which the commercial banks have developed their function as financial intermediaries. Although there has been an increase in such activity since the early post-independence years, the figure appears to be little more than 20 per cent anywhere. Table IV gives three examples.

12/ Extract from Broadsheet 1981, who owns whom it the UK and the continent, (Dunn and Bradstreet Publication), (1981).

Table III: Deposits of Commercial Banks as a Percentage of GDP in a few selected countries

	1967	1970	1975	1980	1981
Liberia	9.58	12.28	11.01	11.21	9.34
Nigeria	...	11.67	13.17	22.95	24.31
Zimbabwe	...	...	26.09	24.19	23.2

Source: Liberia: Economic Survey, Ministry of Planning and Economic Affairs, National Bank of Liberia - Annotations and Nigeria: Economic Financial Review: Central Bank of Nigeria. Zimbabwe: Quarterly Economic and Statistical Review: Reserve Bank of Zimbabwe.

54. Once again, however, the transnationals dominate, as Table V demonstrated.

Table IV: Share of the Transnationals in deposits of Commercial Banks in a few selected countries (Percentage)

	1980	1981	1982
Nigeria	70	72.6	73.9
Liberia	78.6	81.7	75.7
Kenya	66.33	...	...

Source: Nigeria and Liberia: Commercial Bank of Nigeria; National Bank of Liberia respectively. Kenya: Central Bank of Kenya.

55. Deposits are of three types, demand, savings and time. Savings and Time are more important for medium and long-term investment purposes. In spite of growth, however, the figures for Liberia and Nigeria show that the proportions of savings and time deposits that are mobilized are low. The transnationals are more interested in short-term rather than medium - or long term investments, and so are reluctant to mobilize time deposits.

56. There is no adequate information on the source of deposits, but the transnationals appear to mobilize more funds from companies, corporations, government and government parastatals than from individuals.

57. The slow growth of time deposits results partly from the low interest rate fixed by African central banks compared with international rates.

(d) Other sources of funds

58. The period since 1960 has been marked by the development of inter-bank financing and by an enormous world-wide increase in the other liabilities of commercial banks. Examples in Africa where this may be noted, are Nigeria, Kenya and Zimbabwe. Transnationals borrow and lend in the short-term amongst themselves and even from the national banks if there is a profitable use. At the end of 1982, in Nigeria, the affiliate share in this was 79.1 per cent and the indigenous share 20.9 per cent.

2. The users of funds

59. Funds can be classified into four broad groups:

- Fixed assets: usually a very small proportion
- Loans and advances: normally the largest share in all commercial banks
- Investments
- Other assets: usually contra to other liabilities.

(A) Investments

60. Throughout most of Africa, the percentage of investments in the total assets seems particularly low, since most funds are devoted to loans and advances. In Nigeria, investment was only 12 per cent of total assets at the end of 1981, and in Zimbabwe 12.6 per cent at the close of 1982. There are two major reasons for this: a lack of proper instruments such as shares, stocks and dementures and a shortage of developed capital and money markets.

61. The composition of investments is such that most are in Treasury bills and certificates or Government securities and few in private stocks and shares or long-dated instruments. At the end of June 1982, 80.5 per cent of investment in Nigeria was in Treasury Bills and certificates. As Maurice Odle observed "most governments use the issuing of these instruments, not merely for regulatory purposes, but the financing defecit budgets."13/

62. This holds true for both national and transnational banks, although the bulk of investments are by transnational affiliates; for example, in Nigeria, transnational investment accounted for 84 per cent of the total in 1982.

(b) Loans and advances

63. Overall, commerce and then industry take up the major share in this sector. Table VI shows several examples of this:

13/ Odle, Op.cit. p.6

Table V .: Classification of loans and advances by purpose

Area	General Commerce %	Manufacture %	Construction %	Agriculture %	Others %
1. Monetary Union of Benin, Ivory Coast Niger (1982)	36.7	25.7	-	5.2	32.4
2. Zimbabwe (61.2%) Private Sector (38.8) Public Sector (1982)	27.1	22.1	-	16.2	34.6
3. Nigeria(1982)	16.1	30.5	20.6	7.2	25.6
4. Liberia (end Sept. 1983)	26.6	0.2	8.6	5.2	(36.2* (23.2

* Public corporations

Source: Banque Centrale des Etats de l'Afrique de l'ouest Report, 1982.

64. Since 1973 the Central bank of Nigeria has prescribed the necessary credit percentages allocated to the different sectors of the economy, with the aim of re-directing investment from the non-productive sector of commerce - domestic trade and imports-towards the productive sector - agriculture, manufacturing and construction.

65. A high percentage on manufacture does not reflect the true situation, however, since credit is "released mainly to assembling in which almost all the inputs are imported, rather than to manufacturing proper".14/

66. "Although agriculture is the main stay of African economies, it suffers from a lack of finance. Commercial banks claim that they are not well suited to lend for the small and short-term needs of the African farmer and have been slow to develop agricultural credit because of its low margin... Commercial banks have been more willing to lend to support industrialization because they are more accustomed to such lending and because most projects involve foreign participation, capital and technology. They fit better the mould of the traditional import-export orientation of the commercial banks." 15/

14/ Odle, Op. cit.

15/ Odle, Op, cit, p. 59

67. Not only is credit diverted to the less productive, distributive sectors but it is usually lent only for the short-term; for example, in the Monetary Union of West Africa, short-term accounted for two thirds of the total in 1982, and a similar situation was observed in Nigeria and Liberia.

68. There is disparity in the allocation of credit; small scale enterprises and those owned by nationals get inferior treatment by transnational banks, who prefer "multinational enterprises producing goods for export... and native whites involved in the distributive sector." 16/ This situation persisted until the mid-1970's in Nigeria, at which time the Central bank stipulated that preference be given to national enterprises. As a result, the percentage lent has risen, although it is not clear whether the increased lending is to purely national concerns, or to those with foreign participation or collaboration. A recent Central bank of Nigeria guidelines states that at least 16 per cent of the credit allocation for manufacture should be allocated to small-scale enterprises.

69. It would appear, therefore, that the transnationals impart little capital or funds, that they dominate the local mobilisation of resources, and that they devote most available resources to short-term lending with a preference for expatriate owned or associate firms, to the neglect of medium- or long-term lending and of national enterprises.

70. In Nigeria, of the 80 per cent of institutional finance which was raised by commercial banks, the transnational affiliated banks raised 73.9 per cent of all deposits, and used them mainly for short-term lending which left very little for development investment. A similar pattern held in Liberia, and probably in many other countries.

3. INTERNATIONAL OPERATIONS

71. Transnational banks have always dominated international trade and finance, for trade gave them entry into the various countries. The internationalisation of production and the greater level of intermediation following the 1972 oil crisis have led to enormous increases in their financial operations in Africa.

72. The transnational corporations have been responsible for the internationalisation of production, with assistance from the transnational banks in the host country and their parents overseas. Sectors such as oil and mineral exploration demanded huge investments and while minimum equity was brought in, the bulk of investment was in the form of banks c suppliers of credit; for example the four iron-ore mines in Liberia were financed by loans from transnational banks in the USA, West Germany and Sweden. A similar situation existed in Mauritania and Guinea, even after the 1960's. High proportions or the cost and export earnings were made up of interest and amortization payments, thus leaving a small proportion subject to local taxation. Such huge factor payments to the transnationals appear common throughout Africa.

16/ Finance and Banking. "The Cambridge Encylopaedia of Africa," (CUP, 1981) P. 370.

73. During the 1970's the transnational banks emerged as important credit suppliers to the governments and private sectors of developing countries, especially oil-rich countries, they were also available to low-income states. The credit made available by the transnational banks or syndicates to various governments, or state guaranteed institutions, between 1976 and 1980, may be seen in Annex I. Some loans were made through individual banks within countries; for example, in Liberia; either directly or through the parent, whereas large amounts tended to be financed on extended credit through transnational syndicates; for example, the syndicated banks to Algeria, Nigeria and the Ivory Coast.

74. The use of transnationals, which were non-operational in the country concerned, through brokers, was not uncommon; for example the Nigerian Government has obtained syndicated banks through Lazard Fieres & Co. of the USA, Lehman Brothers Inc. of the USA and S.G. Warburg & Co. Ltd. of UK and Switzerland.

75. Most loans were for 5-10 years only with flexible interest rates, usually a specific percentage above labour and in addition various fees, such as for management and participation were changed. The term and conditions specified by the banks and syndicates may be seen in Annex II, which shares that African countries paid a high price in interest and fees, as compared with elsewhere, even considering that the terms and conditions depend on the supply and demand credit in international markets and/or the credit-rating of the individual country by the bank or syndicate: this is explained by a lack of information on trends and by lack of expertise.

76. Governments sought such loans to meet current deficits, or to cover investments in large projects. It would appear that such share period, high cost credits, which were after used on non-profitable projects, have contributed to the present debt crisis.

77. Data on credits to the private sector is very scanty; 17/ and thus no figures are included.

78. In Liberia, transnationals viz the CITIBANK and the Chase Manhattan Bank, provided the government with ways and means advances; although the exact terms and conditions are not available, it is clear that the banks charged very high fees and service charges, in addition to international rates of interest.

79. Thus, the powerful influence of the transnationals may also be seen in the international sector.

4. PROFITS AND PROFITABILITY

80. The two guiding principles of the transnationals are profit and security; unless profit margins accord with parent company guidelines, there is a movement towards withdrawal, merger or a charge in operations; thus for example, CITIBANK ceased retail banking in Liberia in 1980, to concentrate on wholesale banking with very high minimum savings deposits, for the benefit of only 60 clients.

17/ Banque Centrale des Etats de l'Afrique de l'ouest: Extract from the Annual Report for 1982.

81. The profitability figures of commercial banks in general and of the transnational affiliate components are difficult to obtain. Table VI shows some information on Nigeria and Liberia: which indicates that net profits on paid up capital and reserves were very high. This is, perhaps, indicative of the position in other transnational affiliated banks.

Table VI.: Profitability of banks in Liberia and Nigeria
(in '000 $US)

	Capital	Reserves	Profits (After tax including extra ordinary item)		
Liberia (end of 1982)					
1. Citibank	500	1 442	2 203		
2. Chase Manhattan	500	1 293	856		
3. ITC	500	1 893	353		
4. ROCI	500	340	370		
Nigeria (in Nigerian Naira)	Ending	Ending	Ending	Ending	Ending
First Bank of Nigeria (Ltd.)	March 1979	March 1980	Dec. 1980	Dec. 1981	Dec. 1982
1. Return on shareholders' Funds	32%	24%	18%	20%	16%
United Bank for Africa (Ltd.)					
Ending	March 1979	March 1980	March 1981	March 1982	March 1983
Earnings per share (N.N)	0.44	0.50	0.57	0.65	0.66

Source: Liberia - National Bank of Liberia

Nigeria - Annual Reports and Statement of Accounts of the two banks for the respective periods.

82. Further evidence of high profit levels appears in the 1972 Annual Report of Citibank; for the first time in our history over half our earnings - 54 per cent to be exact - came from overseas operations. In total we earned $110 million from this source: more than the corporation earned as recently as five years ago. P.M. Sweezy in his book "Multinational Corporations and Banks" (January 1978) stated that according to 1977 figures Citibank, the second largest US bank, earned 80 per cent of its profits from foreign lending.

83. Branches do not often prepare separate profit and loss accounts; they prepare only those statements prescribed by the central bank, whilst other accounts are included with those of headquarters; as in Liberia. The host country may not even know the level of profitability of transnational branches.

84. Deposit and lending rates are often laid down by the central banks, in order to reduce the cost of credit, as in Nigeria and Franc zone countries; elsewhere the maximum lending rate is fixed, as in Liberia, so that reasonable margins are established. Transnationals are obliged to operate within these limits, but they try to obtain the maximum margins possible, and it is by other bank charges, fees and commissions that they augment income considerably; for example, the charges for transfer of funds locally and remittances abroad are fixed by the banks themselves with the aim of maximising profits.

85. Where transnational banks are allowed to set lending rates, they may do so jointly through a bankers association; for example, in the Seychelles, until 1979, Barclays international and the Standard Bank acting as the Bankers association, jointly fixed the commercial bank prime rate.

86. Profit are also be augmented by offering bridging finance to government and acting as consortium leaders or members; operations may either be direct or through the parent company.

87. Profit policies are guided from headquarters, with profit maximization as the primary aim. Regulations are avoided by undertaking different activities to raise income; and insufficient profit causes company withdrawal from the market.

(B) Insurance and re-insurance institutions

1. Sources of Funds: (a) Capital and reserves

88. As with the banks, little investment capital is brought in this Nigot funds derive from the capitalisation of profits or reserves.

89. Reserves are most important in giving strength to an insurance institution since they constitute the substantial funds available for investment. General reserves are partially controlled, whilst technical reserves are set by legislation in most countries. Underwriting is usually localised, but premium varies: premiums on risks that arise locally are expected to be retained and invested locally, whereas risks involving foreign exchange, or those which cannot reasonably be covered by local institutions are re-insured, in which case premium minus claims flows out of the country. Thus, technical reserves on local risks, such as worker compensation and minor accidents, together with life funds are retained locally, whereas on other risks, such as fire, aviation and marine cargo, premium is retained only to the extent of the local institutions ability to cover the risk and the remainder is re-insured with the transnationals. No information for Africa as a whole is available on the general and technical reserves of the transnationals, or on their investment.

(b) Other

90. The other sources of funds are premiums and income from investments, with premiums constituting the bulk, since income, usually from the investment of reserves, is necessarily limited.

91. Figures for the total premium income on risks underwriter inside and outside Africa are not available. It has been estimated, however, that the total premium income of Africa grew from US$750 million in 1967 to US$3.9 billion in 1977; an annual growth rate of 17.87 per cent. Even so, the 1977 figure represented only 1.7 per cent of total world premium income. 18/ Table VIII indicates the growth of direct premium income in several countries for which figures are available.

92. If development since 1977 is assumed at only 18 per cent, then the total premium at the end of 1983 would be approximately US$6.9 billion. Of that, life insurance probably accounts for no more than 10 per cent, since "life insurance in the majority of African countries is under-developed". 19/ Only in Egypt, Nigeria and Kenya, does it seem to have much impact.

93. The bulk of business is, therefore non-life, which consist of fire, general accident, motor, marine (cargo and hull), aviation and engineering. Of these, the main focus of local company interest is motore insurance, both third party and comprehensive, since this is compulsory almost everywhere. General accident is next in importance. In the other categories, where there is a foreign exchange risk, the transnationals are directly or indirectly, greatly involved. Those with branches or affiliates underwrite and re-insure with the parent or associates; in addition, they try to get re-insurance from local companies, either directly or through agents and brokers. There is no doubt that re-insurance is big business for the transnationals, but unfortunately there are no figures available on the proportion of the risk incurred in Africa which is re-insured with the transnationals, and of that total, the proportion retained in Africa as opposed to being re-insured abroad.

94. Under international law, once a cargo is on board ship, the risk is that of the importer, whether or not the contract is F.O.B. or C.I.F. Hence, UNCTAD recommended to all developing countries, the compulsory localisation of all import cargo risks. This measure has been effected in: Angola, Congo, Ethiopia, Ghana, Ivory Coast, Mauritania, Nigeria, Cameroon and Tanzania. 20/ The reason for delay elsewhere are not clear.

95. Exports are almost always F.O.B., which allows the importer overseas to take out his own insurance. The exception is Zaire, which insists on the local insurance of exports. Most exports are to developed countries, hence insurance will be in the hands of transnationals and a very small proportion will come back to Africa as re-insurance.

18/ Odle, Op. cit. p. 57

19/ International Monetary Fund, "World Economic Outlook", 1983

20/ Swiss Re-insurance Company SIGMA, No. 5, May 1979, (Quoted from the United Nations Commission on Transnational Corporations, "Transnational Re-insurance Operations", ST/CTC/15, 1980, P. 47.

Table VII : Direct Insurance Premium income in Four African Countries

	Arab Africa*	Kenya 1/	Nigeria 2/	Ethiopia 3/
1974				
General (non-life)	436.0	32.5	--	--
Life	40.9	14.8	--	--
Total	476.9	46.3	--	--
1975				
General (non-life)	536.8	39.5	--	--
Life	50.1	17.1	--	--
Total	586.9	56.6	--	--
1976				
General (non-life)	603.3	45.2	--	23.8
Life	58.4	17.3	--	1.7
Total	661.7	62.5	--	25.5
1977				
General (non-life)	693.2	58.4	--	35.1
Life	48.5	18.6	--	1.9
Total	741.7	77.0	--	37.0
1978				
General (non-life)	837.0	--	--	--
Life	60.0	--	--	--
Total	897.0	--	--	--

	Arab Africa*	Kenya 1/	Nigeria 3/	Ethiopia 4/
1979				
General (non-life	--	--	--	59.3
Life	--	--	--	3.8
Total	--	--	--	63.1 4/
1980				
General (non-life)	--	--	--	45.9
Life	--	--	--	2.4
Total	--	--	--	48.3
1981				
General (non-life	--	--	--	45.2
Life	--	--	--	1.9
Total	--	--	--	47.1

Source: A. Fair Review - various issues from Sept. 1977 to March 1984.
B. Nigerian insurance Yearbook - 1983 - Nigerian Reinsurance Corporation.

* Includes Algeria, Egypt, Libya, Morocco, Mauritania, Somalia, Sudan and Tunisia.

1. Kenyan Shillings converted at US$1 - 10 K. Shillings.

2. Nigeria Naira 1 - US$1.4

3. Ethiopian Birr 2.07 - US$1

4. For 18 months ending June 1979.

96. Three measures have been taken to stem the outflow of foreign exchange:

(i) local underwriting has been made compulsory and re-insurance routed through national corporations;

(ii) local and regional re-insurance pools have been instigated, for example, the Nigerian re-insurance corporation, and the Afro-Asian pool;

(iii) regional re-insurance corporations have been established, for example, the Africa re-insurance corporation began operating on January 1, 1978; at the end of 1983 its premium was approximately US$35 million, of which it retains about 75 per cent and re-insures the balance with the transnationals. It handles the compulsory re-insurance of 5 per cent of Treaties from the 37 signatory countries. Even so it has not expanded greatly, because of lack of adequate capital and foreign exchange problems arising from the non-remittal of premium in time by local insurance companies. No quantitative information exist on the situation with the pools, and on how much re-insurance they take with the transnational companies.

97. Normally, a further source of premium income would be inward re-insurance from abroad, but the amounts obtained by national companies seem negligeable. Africa re-insurance Corporation has made large headway in negotiations with the transnationals, and until the end of 1982, its inward premium income seems to have less than US$5 million.

98. Transnationals remit as much premium as possible, other than that specified for local retention, to the parent for investment abroad. There are, however, no figures available.

2. Uses of funds

99. There are four categories of use: claims, re-insurance, administrative expenses and investments.

(A) Claims

100. Claim statistics are not available for Africa as a whole, but it seems that claim levels are very high in motor insurance, which forms the bulk of the business and that "unless some system can be found to render automobile insurance more profitable, less loss-incurring... and to reduce the dependence of most African portfolios on that class of insurance, the African insurance markets will not be able to develop satisfactorily" 21/

(B) Re-insurance

101. Apart from a few larger insurance markets, "most African countries depend heavily on foreign re-insurance, not only because of their small and very unbalanced portfolios, which are entrusted to financially weak insurance companies, characterised by an almost dramatic lack of know-how in all the most complex classes of insurance, but also because of the close lines which exist between local companies and foreign insurance holding." 22/ Re-insurance of life policies is very uncommon because of the local risk and the small size of the business. Whereas non-life, especially the non-motor sector, is far more substantial, because of the sizeable foreign exchange component; local companies are reluctant to carry the foreign exchange risk on such items as marine hull, aviation, oil and oil refineries. It seems that in aviation, almost 90 per cent is re-insured as the foreign exchange risk involved is particularly high.

102. The transnationals, therefore, do not seem to have lost much business either to domestic companies pools or Africa. Indeed in absolute terms they seem to be developing and increasing their business where the regulations of foreign companies are not clearly defined, domestic companies often regulate their reinsurance transactions on the basis of the "corporate strategies adopted by the financial group.

21/ Elnomum Elsamusi, "Gaining new ground", in Fair Review (Federation of Afro-Asian Insurers and Re-insurers, September 1980), p. 8

22/ United Nations Commission for Trade and Development, Third World insurance at the end of the 1970s, (TD/B/C.3/169/Add), p. 1981.

Similarly, investment decisions flowing out of these reinsurance transactions may not be made independently" 23/ Brain Hindley summarises the position "the total volume of international transactions in insurance may not be greatly affected by the panoply of restrictions and prohibitions applied by developing countries. Instead, they shift the composition of these transactions so that reinsurers in developed countries have a greater share, and direct insurers a smaller share of that volume of business than would otherwise be the case." 24/

(C) Administrative Expenses

103. Very little information is available although Table XI shows some figures for Nigeria. (Please see table on the next page.) Unless the volume of business increases, it seems that administrative costs will continue to find a substantial part of premium in Africa.

(D) Investments

104. Insurance companies have both general and technical reserves available for investment. Life insurance is a good source of savings for investment since the risk is spread over a long period. Liquidity is more important with non-life, however, as claims arise within short periods of time.

105. There is a general absence of accurate information, but the Nigerian situation is shown on Table VIII.

Table VIII- Investments of all direct insurance companies in Nigeria - by type for 1980 and 1981 (in million)

Type of investment	1980		1981	
	Life	Non-life	Life	Non-Life
1. Federal Govt. Securities	51.0	35.1	58.9	44.6
2. State Govt. Securities	1.1	3.8	1.6	3.0
3. Securities of semi-govt bodies	0.7	3.9	1.0	4.3
4. Other bonds and stocks	71.5	43.1	86.3	63.7
5. Real Estate	23.9	21.0	17.1	40.8
6. Mortgage loans on real estates	33.3	8.9	40.0	7.7
7. Loans to policy holders	10.6	1.2	14.1	4.1
8. Other loans (e.g car, etc. shorter-term)	14.7	5.7	9.8	15.3
9. Cash on deposit a/c	52.2	58.0	46.6	63.3
10. Bills of exchange	7.0	7.2	3.6	6.6
Total	265.9	187.9	278.9	253.3

Source: Nigerian insurance Yearbook, 1983, P. 103

23/ TD/B/C. 3/169 Add.1/Rev.1, 1981, P. 7
24/ TD/B/C 3/169 Add 1/Rev.1, 1981, P. 7.

Table IX: Income versus Management expenses of non-life insurance companies in Nigeria

Year	Wholly Nigerian Manager			Joint			Foreign			Total		
	Income	Expenses	%	Income	Expenses	%	Income	Expenses	%	Income	Expenses	%
1974	18, 237	6,628	36,3	17,606	4,762	27.1	3,272	903	27.6	39,115	12,293	31.4
1975	33,863	8,865	26.2	31.242	6,159	19.7	5,579	1,071	19.2	70,684	16,095	22.8
1976	54,811	12,986	23 7	44,387	8,209	18.5	5,771	933	16.2	144,969	22,128	21.1
1977	109.133	16,320	15.0	55,175	8,780	15.9	-	-	-	164,308	25,100	15.3
1978	99,747	25,633	25.7	67,113	17,330	25.8	-	-	-	166,910	42,965	25.7

Source: Economic and Financial Review, Vol. 18, No. 1, June 1980, Central Bank of Nigeria.

106. The Table IX shows a low level of long-term investments in favour of short-term investment and government securities, which suggests that insurance companies are not a good source of savings for investment in African countries. The transnational practice is to transfer funds for investment abroad, and to maintain the funds which cannot be transferred as liquid as possible.

3. Conclusion

107. Local underwriting has increased as a result of legislation and the founding of national companies, but the outflow of resources through the transnationals has not been diminished because of their move into re-insurance. Local companies, with limited capital and resources, rely on transnational re-insurance, especially when foreign exchange is involved in the risk. Equally, the pools and the African Re-insurance Corporation have been able to make little headway. In 1974, re-insurance was estimated at US$ 1 billion and the total premium income in Africa at US$ 3 billion. Premium has now risen to almost US$7 billion; thus the outflow has also risen. Inward re-insurance premium which would help to contain outflow, has not grown significantly.

C. Merchant Banks

108. In distinct sizeable entities, these operate in Nigeria, Kenya and Zimbabwe, where in terms of capital requirements and reserves, they are treated similarly to commercial banks apart from a prohibition on retail banking operations.

a) Sources of funds: (i) Capital and Reserves

109. Legislation demands national participation, both in Kenya and Nigeria; thus the transnationals are affiliates. Zimbabwe has an open market. Very little capital flows in through the transnationals, unless there is a new entrant into the market. In contrast, outflow totals, the capitalisation of retained earnings and profit margins seem very high.

(ii) Other

110. Most funds are raised locally in the form of term-deposits, intra-bank funds or other liabilities, as may be seen from the example of Nigeria, the largest of the merchant banking operations in Africa, in Table X.

Table X: Sources of Funds of Merchant Banks in Nigeria
(Millions of Naira) ending Dec. 1982)

1.	Capital and Reserves	250
2.	Balances held for other banks	-
3.	Money at call	135.9
4.	Deposit	513.1
5.	Certificate of Deposit	82.7
6.	Other liabilities	671.7
	Total	1,428.4

b) Uses of funds:

111. Most funds are used for trade finance and short-term credits, rather than for long-term investment. Equipment leasing absorbs a small amount. The examples of Nigeria and Zimbabwe are shown in Table XI (Please see next page).

Table XI : Uses of Funds by Merchant Banks in Zimbabwe and Nigeria
End Dec. 1982 (US$ Million)

1.	Balance with reserve banks	11.6
2.	Money at call	16.6
3.	Treasury Bills	6.0
4.	Bills of Exchange	103.2
5.	Loans and Advances	145.6
6.	Government Securities	15.0
7.	Other Assets	47.8
	Total	345.7
	Acceptances	329.7

Sources: Monthly Digest of Statistics, Central Statistical Office, March 1983, P. 64.

Merchant Banks in Nigeria - Uses of Funds - End Dec. 1981
(Million of Naira)

1.	Balance with Central Bank	142.6
2.	Balance with Banks in Nigeria	9.1
3.	" " " abroad	52.6
4.	Money at call	127.9
5.	Bills discounted	13.7
6.	Loans and Advances	570.3
7.	Treasury Bills and Certificates	69.4
8.	Equipment lease	14.6
9.	C.D. and others	11.6
10.	Other assets	.9
	Total	1,898.7

Source: Economic and Financial Review, Central Bank of Nigeria June 1982, P. 46

112. The small number of stocks and shares placed in the capital market suggests minimal development as investment advisors, underwriters or investors in the long-term market. They seem to function as commercial banks rather than as merchant banks, perhaps because the commercial banks offer almost the full range of merchant bank services. Overall their influence is minimal.

113. Profit levels, however, seem substantial had the return on paid-up capital is very high, this would explain the motivation of their separate existence. Profits of merchant banking operations in Zimbabwe are shown in Table XII.

Table XII: Profits of Merchant Banks in Zimbabwe 1980
($ Million)

Merchant Bank	Share Capital	Reserves	Profit	Return on Investment %
RAL	6	5.2	2.1	35
Merchant Bank of Central Africa	4	-	0.75	19
Syfrets	2	2.3	1.35	33
Standard Merchant Bank	4	-	0.55	14

Source: "Merchant Banking in Zimbabwe", Research project, University of Zimbabwe, p. 4.

D. Development Banks

114. Most African countries have set up development banks to provide long-run investment capital for agriculture, housing, mining and industry. Infrastructure development such as transport, including roads and railways, electricity and water supply is usually handled by the government, but may be financed through a development bank.

a) Sources of Funds: (i) Capital and Reserves

115. The capital investment in these banks is substantially, if not totally, a government input, either from government resoruces, the central bank or government owned or controlled institutions. The remainder comes from nationally operating banks, insurance and re-insurance companies, including the transnationals, although these are usually minor partners. Where private sector interests are allowed as shareholders, the international Finance Corporation (I.F.C.), an affiliate of the World Bank, is often a participant. Table XIII shows the ownership of several development banks.

Table XIII: Nominal Capital and Ownership of Several Development Banks in Africa

Year of Establishment	Name of Institution	Nominal Capital	Name of Ownership	Country
1. 1964	Nigerian industrial Development Bank	N100 million	Nigerian Government	Nigeria
2. 1973	Nigerian Bank of Commerce and Industry (NBCI)	Over Naira 50 million	Nigerian Government	Nigeria
3. 1970	Societe Financiere de developpement	2 million Zaires	Foreign bank/ Zaire	Rep. of Zaire
4. 1960	Cameroon Development Bank	1 billion CFAF	French/ Cameroon	Rep. of Cameroon
5. 1960	Banque de Developpement	1 billion CFAF	French/ Gabon	Rep. of Gabon
6. 1966	Banque Nationale de Developpement	60 million Fr. (Burundi)	French/ Burundi	Rep. of Burundi

Source: "Money and Banking in Africa", J.K. Lonoh, Longman, 1982 p. 113.

116. The banks are often incorporated under separate statutes in which reserve requirements and regulations on the declaration of dividends are also laid down.

117. The involvement of the transnationals in daily business is limited since they are the suppliers of marginal capital only.

b) Sources of Funds: (ii) Other

118. Major operations depend heavily on government and international financial institutions, such as the World Bank and the European Development Bank, with the transnationals in a very minor role, providing few funds either directly or through the parents. There are very few cases where Euro-dollar Bond or credit has been raised for financing purposes.

119. Equally there are few instances of the issue of financial instruments for raising funds locally, even in the more developed capital markets of Africa, such as Nigeria. The dependence is again on government for local finance.

120. A similar situation exists in French West Africa. In the Ivory Coast, development banks have recently been allowed to accept deposits to augment resources.

121. The transnational banks and institutions are not interested in lending to the development banks, however, for they consider such long-term lending to be outside the scope of commercial banks; furthermore, it is not sufficiently profitable for the high risk involved. In some areas, Nigeria for example, legislation prevent any such lending.

122. Insurance and re-insurance companies should be another source of finance. Although overall figures are not readily available, it appears that in Nigeria, there is little investment, partly because the development banks have not issued instruments for subscription.

123. The transnational banks and institutions are, therefore not actually involved in the development banks. Indeed there are few agricultural development banks in which the transnationals are even involved as shareholders, since they prefer the mining and industrial sectors. They may, however, be the bankers or insurers of the development bank clients.

c) Uses of Funds:

124. The growth and lending operations of the development banks have been limited by lack of resources. The "Africanization" of some trade and industry created a demand for loans, but the transnational commercial banks provided the funds, and the private sector prefered to use the bank, rather than a government sponsored institution. Thus in Nigeria, the usefulness of the Nigerian bank for credit and industry, which the government established in 1973 to help indigenisation, was restricted.

125. Lending for investment involves the careful analysis of risk; there is a market lack of expertise in this field, and the transnationals have been of little assistance. Lending to agriculture in particular has been difficult.

126. Another problem is the time lag that develops because of the community's inability to absorb credit quickly. For example a German credit to the Liberian Development Bank had to be re-negotiated twice to extend the time limit for withdrawal.

127. As a result of government participation and management, and of the low interest rates which are prescribed, development banks are not very profitable and indeed often run at a loss.

E. OTHER FINANCIAL INSTITUTIONS

128. There are several other types of institution, some acting in a regular financial capacity and others as the intermediaries of transnationals. Very little information is available on them.

129. In Zimbabwe, there are several different types in operation, viz:

(a) two discount houses:

(i) The Discount Company of Zimbabwe, jointly owned by Barclays Bank International Ltd., Grindlays Bank, Royal Insurance, the RHO Bank and a number of other investment companies;

(ii) The British and Rhodesian Discount Co. Ltd., jointly owned by RHO Bank, Prudential Assurance, Standard Bank, Barclays and other minority interests.

(b) Several finance companies, such as the Finance Corporation, and Viking Finance Corporation, which is owned by Standard Finance, a subsidiary of the Standard Bank.

130. Table XIV: summaries the activities of these organisations in 1981 and 1982.

Table XIV: Liabilities and Assets of Discount Houses and other Financial Institutions in Zimbabwe at the end of 1981 and 1982

	Discount Houses ($million)			Financial institutions ($ million)	
	1981	1982		1981	1982
Liabilities			**Liabilities**		
1. Share capital and reserves	6.4	6.8	1. Share capital capital & Reserves	12.2	12.2
2. Money at call	100.2	92.9	2. Time deposits	86.8	83.7
3. Other liabilities	3.6	4.9	3. Loans advances & acceptances	1.4	1.6
			4. Other liabilities	8.4	10.0
Total	110.2	104.6		108.8	107.5

Cont'd.,

Table XIV: Liabilities and Assets of Discount Houses and other Financial Institutions in Zimbabwe at the end of 1981 and 1982

As at the end of	Discount Houses ($ Million) 1981	1982	As at the end of	Financial Institutions ($ Million) 1981	1982
Assets:			**Assets**		
1. Treasur bills	24.9	56.5	1. Balance with Reserve Bank	2.7	2.6
2. Other bills	76.4	41.4	2. Balance with Commercial bank	1.6	1.1
3. Govt. securities	0.9	1.1	4. Treasury bills	0.1	0.1
4. Other assets	8.0	5.6	5. Bills & Notes receivable	3.3.	4.1
Total	110.2	104.6	6. Hire purchase agreemments	41.2	44.7
			7. Leasing agreements	12.8	10.4
			8. Advances	26.1	22.6
			9. Govt. securities	11.1	13.5
			10. Other investments	3.0	2.0
			11. Other assets	4.3	5.9
			Total	108.8	107.5

Source: Monthly Digest of Statistics, Central Statistical Office, Govt. of Zimbabwe, March 1983.

131. In the former French States of West and Central Africa, there are several automobile hire-purchase companies in operation, but no details are known on their funding or profits.

132. It appears that although the levels of direct financial operation are not high, these various institutions exert considerable indirect influence.

V. Transnational banks and financial institutions as channels for the inflow and outflow of resources

133. The international transactions of Africa over a seven year period are shown in Table XV.

Table XV: Summary of International Transactions of Africa
(in billions of SDR's

		1976	1977	1978	1979	1980	1981	1982
Current Account								
1. Merchandise F.O.B.	Cr.	20.8	24.5	25.6	32.1	40.7	39.1	36.5
	Dr.	22.0	23.9	24.9	29.3	38.6	43.6	40.4
2. Other goods Services & Income	Cr.	4.8	5.3	6.0	7.1	8.7	9.3	9.3
	Dr.	10.7	12.0	13.0	14.9	18.3	20.1	18.7
3. Private unrequited transfers	Cr.	1.2	1.2	1.5	1.7	2.0	2.3	2.0
	Dr.	1.0	1.1	1.1	1.3	1.6	1.5	1.6
4. Official Unrequited transfers	Cr.	1.8	2.1	2.3	2.4	3.0	3.1	3.2
	Dr.	0.3	0.3	0.3	0.3	0.4	0.4	0.1
Capital Account								
5. Direct investment	Cr.	0.4	0.3	0.3	0.3	0.2	0.3	0.9
	Dr.	-	-	-	-	-	-	-
6. Portfolio Investment	Cr.	-	-	0.1	-	-	-	-
	Dr.	-	-	-	0.4	0.3	0.3	-
7. Other long-term capital (N.I.E.)	Cr.	4.1	4.3	4.2	4.2	4.6	5.4	4.8
	Dr.	-	-	-	-	-	-	-
8. Other short-term capital (N.I.E.)	Cr.	0.7	0.5	-	-	8.5	3.9	1.5
	Dr.	-	-	-	-	-	-	-
9. Totals of current Account and Capital A/c	"	33.1	37.7	40.0	47.8	59.2	59.5	56.7
	Dr.	34.0	37.3	39.3	46.2	59.2	65.9	60.8

Source: IMF Balance of Payments Statistics, Vol. 34 Yearbook, Part II, 1983.

Apart from official inflows and outflows through the Central banks, all transnactions are carried out through banks and other financial institutions. Since most national banks and institutions have no office around, they are obliged to rely on foreign correspondents to negotiate, for which they pay service charges. On the other hand, the major countries with trade and finance links in Africa have operations based in all countries except for ten from which they are banned, through which transactions take place with their parents and associates. There is, therefore, a net outflow of resources on handling charges.

134. The table also shows a total net outflow of resources, the major component being current account. Whereas capital inflows have to be repaid with interests; the servicing and repayment of capital maintains outflows at high levels.

A. Current Account

135. The reasons for outflow on merchandise trading are well known, but on the whole, the net outflows on this account are far smoother than the "other goods and services" account. The components, and items within each component of this category are shown in Annex III, A and B. Some further explanation will, however be helpful in understanding the role of the transnationals:

(a) Shipment comprises three elements; freight, insurance cover on movable goods only and distributive services. No figures on the distribution of credits between the three elements are published by the IMF; thus the amount spent on insurance of goods is not known; debits would cover remittance of premium and credit the claims received, but the net inflow and outflow is important since the bulk of this insurance and re-insurance is through the transnationals. Before 1977, the IMF published figures dealing with insurance separately, and the figures show that 30 of the less developed, oil exporting countries had a net debit of approximately S.D.R. 0.2 billion in 1973, 1976 and 1977. 25/ The figures for three such states in Africa are as follows:-

Net outflow for insurance (in millions of SDR's

Country	1975	1976	1977
Algeria	20	23	33
Libya	40	41	49
Nigeria	49	70	89

If the UNCTAD recommendation that total import cargo insurance be totalised were adopted, then outflow amounts would decrease.

(b) Items 4(i) and 4(ii) in Annex IIIA need clarification. According to IMF practice, direct investment is where the investor retains the controlling interest; thus categories can be grouped together for the assessment of inflow and outflow. The figures should include returns on investments of the trans-national banks and financial institutions, but no such information is available.

(c) There are two types of other investment income:

(i) official, including credits and debits on account of government operations and central banks;

25/ Repore J, "UNCTAD's involvement in the field of insurance, in Fair Review (Federation of Afro-Asian Insurers and Re-insurers, June 1982), P. 13.

(ii) private, including equity dividends on portfolio investment, bank deposit interest (credits and debits), debt securities and loans. No break-down of official and private figures is available. Governments, through the transnationals, have been big borrowers from the international markets especially since 1975; private sector debts and loans are also channeled through the transnationals; hence considerable transnational influence may be assumed. Although some information is available on the terms and conditions to governments, very little exists on the outflow, inflow or account of the private sector. "Whereas the interest payments by governments of the 42 countries to the official sources of debt amounted to 28.5 per cent, interest payments to the private sector (mostly to financial institutions constituted 71.5 per cent". 26/ It can be seen, therefore, that most payments have been to the transnationals, even from governments.

(d) Section 5(ii) of Annex III B also contains a number of items. On examination, it is apparent that the bulk of credit is in the form of remittances by labour. As in other fields, Africa has very little expertise, with the result that the majority of services are imported, one of the most important items is "non-merchandise insurance and reinsurance," a field in which African insurance companies need expertise.

136. In unrequited transfers whether private or officials, the transnationals, mainly the banks, render transfer services only. No. further comment therefore is necessary.

B. Capital Account

137. Direct investment and portfolio investment are usually equity investments by shareholders, who are entitled to profits on dividends.

138.. "Other long-term capital" has three components:

(i) the official sector, which includes central bank and government loans extensions and those activities in which loan operations dominate. The loans come from official sources or from private institutions, which usually supply the direct loans or credit. Since 1975, the level of official loans has decreased and governments in developing countries have been faced to seek support from the private institutions. There is no break down in the IMF figures given in Table XVI. , but there are OECD published World Bank figures which show that transnational banks in particular have lent substantial sums to African governments, partly to help them through balance-of-payment difficulties and partly for project investments. Most loans were in the form of negotiated credits with fluctuating interest rates, short maturities and high fees. All of which created considerable problems. Transnational influence with governments has been very strong in the inflows and in the outflows on account of servicing these debt. Loan repayments have contributed to the present debt crisis.

26/ Shindley Brian, "Economic Analysis and Insurance Policy in the Third World" Trade Policy Research Centre, London 1982, ii preface.

(ii) Deposit money banks, whose operations are limited, but whose inflows and outflows obviously pertain to transnational banks.

(iii) The other sector; another route whereby long-term capital flows through the transnationals to the private sector. The total inflow into Africa, 1976-1982, is shown in Table XIX.

Table XIX: Inflow of long-term capital from other sector

		1976	1977	1978	1979	1980	1981	1982
Long-term capital	Cr.	1614	2060	1580	586	1167	1672	1042
	Dr.	-	-	-	-	-	-	-
Total for 7 years								9821

Source: IMF Balance of Payments Statistics - Vol. 34, Yearbook, Part 2, 1983.

This shows that almost US$10 billion flowed into the private sector from abroad, through the transnationals, during the seven year period. Little further information is available on such aspects as terms and conditions, servicing and repayments. At the end of 1980, "35 per cent of US banks' exposures to the developing countries was accounted for by banks directly to the developing country private sector, (excluding local currency loans)" 27/. OECD banks derive much of their business from their own corporate clients; from project financing, trade credits and all other banking services. Since OECD corporations are increasing their trade with developing countries, so the banks are naturally drawn into business, perhaps without developing country credit risks attached. 28/ There are considerable French franc credits with francophone countries, 29/ and since there is substantial French interest in Africa, it is likely that a major portion of the credit in Africa came from French banks.

139. "Other short-term capital" is made up of the official, deposit bank and that not mentioned elsewhere. Table XVIII shows the net credits to Africa. Once again most of the operations must have been through the transnational banks.

27/ IMF, Balance of Payments Statistics, 1971-1977, Supplement to Volume 29 December 1978, P. ___

28/ UNECA Litho, Adedeji, A., "Foreign Debt and the Prospects of Growth in the Developing Countries of Africa in the 1980's" June 1984, Table 3.

29/ IMF Balance of Payments Statistics, Vol, 34 Yearbook, Part 2, "External Indebtedness of Developing Countries", Occasional Papers, No. 3, May 1981, P. 30.

Table XVII: Other short-term credits to African countries

	1976	1977	1978	1979	1980	1981	1982
1. Official sector	0.4	0.3	0.2	-	0.6	1.7	-0.4
2. Deposit money banks	0.2	-	0.1	-	-0.4	0.7	0.6
3. Other sectors	0.1	0.2	-0.1	-0.6	-0.5	1.5	1.3
Total	0.7	0.5	-0.2	-0.6	0.5	3.9	1.5

Source: IMF Balance of Payments Statistics - Vol. 34. Yearbook Part 2, 1983.

140. In both, the short-term and the long-term sectors of the capital account, the transnationals have played a crucial role in the inflow and outflow of resources, especially since 1973. In some of the borrowing countries, they may have been already represented. While in others they formed consortion, if the credit - worthiness of the country or project warranted intervention.

V. IMPACT OF TRANSNATIONAL BANKS AND FINANCIAL INSTITUTIONS ON THE ECONOMIES OF THE VARIOUS COUNTRIES

A. General

141. Before independence, the transnational operated in Africa to serve the trading and commercial interests of expatriates and their partners overseas. Since independence, some states have expelled the transnationals, others have legislated to control their activities, whilst a few have allowed free operation, though possibly under surveliance, as in Liberia. At the same time, national institutions have been founded either by the governments or with government interest, for most states have encouraged private sector participacion.

142. Where they operate freely, the transnationals have an advantage over national establishments, since they often have an established clientele and are backed by the vast resources of the parents; they even appear to enjoy greater confidence from the nationals and national governments. Operational policies are often better and more streamlined, thus they are very competitive; profitability is high, lending sectors are freely chosen, with profitability rather than economic necessity being the criteria, as for example, in Liberia.

143. Where they are legislative constraints, or guidelines as in Nigeria and the Ivory Coast, these will be observed, but security, profitability or the interest of the organisation will not be sacrificed; cost benefit dominates policy, rather than government or central bank aims or the country's requirements.

144. Chapter IV showed that transnationals dominate the markets, especially in banking. This would seem to result partly from the bureaucratic and inefficient nature of government owned enterprises, which often suffer because of political interference; partly from the inefficiency of many private concerns, stemming from their newness and lack of expertise; and partly from unfair competition from transnationals striving to retain their market share.

145. In the international sector, national companies should have their own branches or correspondents abroad, to lessen dependence on the transnationals. At present these are almost non-existent; thus the transnational affiliates located in Africa are always at an advantage.

146. The transnationals have an insignificant rate in development banking; their position as minor partners being used to promote and increase their business as bankers and insurers, rather than for financing or transmitting expertise. Because the emphasis is on short-term lending in safe and profitable ventures, agriculture is ignored completely, and in mining and industry, enterprises associated with foreign interests or run by expatriates are preferred to nationally run small-scale industry, and maximum possible resources are used in trade. Profit, security and expatriate preference are the guidelines, not the national interest or the requirements of the economy for development.

147. In insurance too, the transnationals continue to dominate business and other foreign exchange-related markets. Domestic risks, such as motor vehicles and minor accidents, are handled nationally, but major risks are only unwritten locally if legislated to do so, and even then, a portion flows out as re-insurance, as in marine cargo. Direct insurance is replaced by re-insurance with low capital resources, national and even nationalised companies cannot retain risks locally, but re-insure in a transnational dominated field, bargaining always, as in facultative insurance, from a position of weakness. At present they play a minor role in the insurance of risk.

148. Where companies are forced to hold money locally, they invest in government securities and short-term investments, in retain cash, rather than investing on any scale in the industrial sector.

149. All financial institutions are handicapped by the lack of capital market and proper instruments, since they are under-developed throughout the region. It can be seen, therefore, that the transnationals have considerable local and international influence on African economies. They dominate the domestic markets of the host countries and possess vast resources abroad, which are used to increase profitability and serve the interest of the expatriate firms, rather than to develop the local economies.

B. Relations with Transnational Corporations

150. Unless previously established, the transnational financial institutions usually followed the transnational corporations, to service them both in the international sphere for investment, and domestically for routine operations in the host country.

151. Most of the transnation l corporations in the mining sector moved into Africa in the 1960's and 1970's, to exploit oil and mineral resources such as uranium, copper, iron ore, bauxite and diamonds. Large investments were necessay, and consortia were formed, to raise a large proprtion of the capital by bank loans. The raising of such large sums, for a mine which may take five years or more to bring into production, is a specialized operation, dependent on international banks and the Euro-dollar market but "both joint ventures and bank finance reduce the influence of the host government".30/. In Liberia, the National Iron Ore Company had an equity of US$3.5 million; 15 per cent from the Liberian Mining Company (LMC) and 35 per cent financed by the promoter of LMC, although alloted to Liberia: the raised capital was $40 million by loans from the First National city Bank of New York, a transnational with a branch in Liberia, and from the export-import bank of Washington. Similarly, the Liberian American Swedish Minerals Company (LAMCO), which is a joint venture of the Liberian Iron Ore Company and the Liberian Government, together with Bethelehem Steel of America and Swedish interest, had a high proportion of loan to equity capital; with loans of $30 million from the export-import bank, $52 million from KFW of W. Germany, $38 million from a Swedish syndicate, and $5.7 million from the First National City Bank of New York 31/.

152. Having raised the loans, a transnational member of the consortium then serves as banker for the company; CITIBANK, is the banker of both of the Liberian Mining companies mentioned. A similar process probably occured in Zimbabwe, Zambia, Zaire, Ghana, Guinea and Mauritania, where a substantial investment in mining took place from the 1950's to the 1970's.

153. Most African countries have encouraged foreign investment in the past, and still appear to do so, although some have imposed certain regulations. Most investment has been through the transnational corporations, with patterns of financing similar to that in the mining sector.

154. The close relationship between the transnational financial bodies and the corporations extends into insurance and the courage of risks, Each complements the efforts of the other to maximize profits.

155. The relationship between the two was summarized by David Rockfeller in 1976. With reference to Egypt; it also aptly describes the situation elsewhere. "The presence of multinational banking institutions in Egypt is important for several reasons. They can serve both as a manager and a conduit for other multinational enterprises; they can supplement the international banking skills and techniques...; and they can help put together sophisticated loan syndications and financing plans so essential to a growing economy. Beyond these direct banking services they can help Egypt in the handling and placing of foreign currencies."32/

30/ IBRD, "Private Bank Lending to Developing Countries", p. 19.

31/ Ibid.

32/ Lanning G and Muellan M, "Africa underinsured" Penguin Books, 1979, P. 367.

C. Role in debt problems in the public and private sectors

156. Chapter IV analysed the development of debt in the public and private sectors between 1976 and 1982. According to the tables of world debt 1982/83 published by the World Bank, the total public debt of 42 African countries was US$86.2 billion, of which US$35.4 billion was from private creditors; $27.3 billion from financial markets and $8.1 from suppliers of credit. 33/ The transnational financial institutions, especially the banks, have acted as the intermediaries in the private sector, as described earlier. No break down is available on the amounts lent for government deficits and for investment.

157. There are no figures available to the outstanding private debt nor of the terms and conditions of lending. It is likely, however, that private lending is more overous than that in the public sector, and that the outflows resulting from interest and amortization are at a greater rate. Lending is largely through parent banks and syndicates to transnational corporations and their subsidiaries or affiliates.

D. Effect on the balance of payments

158. The transnationals sell banking and financial services at as opportunistic a price as possible in the interest of maximising profit, but they are allowed to continue since most host countries consider their operations economically useful. Thus they remit profits, dividends, interest on the capital brought in, and service charges, all of which have an adverse effect on the balance of payments.

159. In addition, there are the enormous remittances in the insurance and re-insurance sectors, in connection with the bearing and spreading of risk, which, in Africa, are not balanced by inward flow. Africa reestimated this outward flow for re-insurance at US$ 1 billion in 1974. Since then, insurance markets in Africa have expanded considerably, but the local share of the market has not kept pace. If insurance has grown at a rate of 10 per cent since 1977, then the total African market may be estimated as around US$ 7 billion; if locally based transnationals handle only 50 per cent of that, then the outward remittance of premium alone is in the order of $3.5 billion. In spite of the proportion of claim coming inward, the final outflow is still substantial, and represents a considerable adverse factor in the balance of payments.

160. Transnationals play a considerable role as intermediaries for investment, for "developing countries offer more opportunity for highly productive investment than they can produce from their own savings. International investment accelerates their growth, and it also allows high income countries to get a better return on their savings." 34/ For the developing country, however, the factor payments are far in excess of the benefits received, thus creating balance of payments problems, as in Liberia.

161. The most important factor, however, is the large scale financing of balance of payments deficits since 1973. Shorter maturities, flexibile interest rates and sweetners in the form of fees which produce a margin in excess of the interest rate have created enormous balance of payments problems throughout the developing world. The short-term assistance rendered has led to long-term problems.

33/ Ibid. pp. 264-266

34/ Rockfeller David, "New roles for international banks in the middle East", National Bank of Egypt, Diamond Jubilee Commemoration lecture, 1976. P.4.

VI. THE IMPACT OF HOST COUNTRY LEGISLATION ON TRANSNATIONAL BANKS AND FINANCIAL INSTITUTIONS

162. Legislation began after the Second World War, but grew particularly following independence. It is now under constant review in relation to national policy. Legislation is drafted separately on banking and other financial institutions, but the implementation of both categories is left to the central banks. Insurance legislation and supervision is generally entrusted to a separate Director or Controller of Insurance.

A. Banking Legislation

163. Although originally intended to safeguard the interest of the depositor, it has been extended gradually to cover operations. Whereas legislation on transnationals covers only entry and ownership, operational legislation applies to all banks.

164. New banks, whether national or transnational are required to obtain a license to operate from the central bank. In some countries local incorporation must precede a license application, whilst others, which permit branches, do not specify incorporation.

165. To be incorporated, a foreign bank trust comply with the ownership qualifications that are in force; this may be full foreign ownership a majority interest or a minority holding, depending on the country in question. For example, since 1977 Nigeria has restricted foreign ownership to a 40 per cent holding; between 1972 and 1977 the figure was 60 per cent and prior to that 100 per cent foreign holding was allowed. In the Ivory Coast and Zimbabwe, total foreign overship is still permitted, Many countries specify a 51 per cent holding for local investors, as in Egypt and the Sudan.

166. Minimum capital requirements for transnationals are also different from national banks; for example, the minimum requirement for a wholly national bank in Nigeria is 500,000 naira, but for a foreign bank associate 1.5 million naira. Where branches are permitted, it is not uncommon for the authorities to specify the retention of specific types and levels of assets; for example, Liberia requires the deposition of assets worth at least US$200,000.

167. The African countries do not restrict the number of foreign branches; a common practice in other developing regions. On the contrary, higher quotas are open laid down, especially for the opening of branches in rural areas for example, Nigeria specified the number of rural branches that each commercial bank should open between 1977 and 1980, but the quota was far larger for transnationals than for national banks.

168. In terms of operations, there is no discrimination between national and foreign banks; for example in the volume of credit, the term distribution; long-, medium or short-term; the distribution within the various sectors of the economy, between national and expatriate enterprises and between small-scale and larger concerns. This is true in Nigeria and also in the Francophone West African countries, where overall credit distribution is determined by the National Credit Council.

169. Most operational regulations are mandatory, some, as in Nigeria, are re inforced by a penal code. In Francophone West Africa, it seems that banks sometimes break the spirit not the letter of the law; for example a World Bank study on the Ivory Coast (Aug. 1973) stated that "the commercial banks would borrow abroad (both inside and outside the Franc Zone) to avoid re-discount restrictions laid down by the Central Bank". 35/

170. Discriminatory legislation may also be incidental, for example, because of exchange control regulations setting the minimum dividends that may be remitted, as in Nigeria.

B. Insurance Legislation

171. Legislation has concentrated on entry and operations. Entry restrictions are similar to those in banking; entry may be prohibited, restricted or free depending on the country. Nigeria for example prescribes 40 per cent as the maximum foreign interest.

172. The agents and brokers of foreign companies, who operate especially for the underwriting of re-insurance are also subject to legislation particularly over registration and licensing, as in Nigeria.

173. There is some discrimination between local firms and foreign affiliates in minimum capital requirements, for example, Liberia stipulates a minimum paid-up capital of US$ 2 million for transnationals, in comparison with US$ 50,000 only for local companies.

174. In terms of reserves requirements, declaration of profits and dividends, and investment of surplus, all companies enjoy similar conditions.

175. As with banks, however, exchange control regulation apply to the remittance of dividends, as in Nigeria.

C. Legislation on other financial institutions

176. Finance related institutions also must be incorporated or registered before they can begin to operate, although this may be for a limited purpose such as income tax. In Liberia, separate legislation exists for non-bank financial institutions; in 1974, the National Bank of Liberia stipulated that institutions, such as the housing and loan associations and investment companies, must obtain licenses from the National Bank.

177. The terms of actual operations, however, there seems to be level legislation or control by the central banks and other authorities.

35/ Adedeji, A. "Foreign debt and the prospects of growth in the developing countries of Africa in the 1980's, a paper presented to the Conference on Foreign Debt and Nigeria's economic development, Lagos, March 1984, p. 23.

VII. The positive and negative aspects of transnational activity

A. Positive Contribution

178. a) Banking and financial intermediation are essential to modern development and the transnationals have helped by being involved in the establishment of these institutions. So long as their own interests are not jeopardised, they have been willing to assimilate national institutions, and have even become minor partners. The large number of affiliates with transnational participation in Africa is evidence of this.

b) Transnationals are highly competitive, exposure to this competition obliges the nationals to become as efficient if they are to survive and develop.

c) They are a major source of the finance necessary for development. Since they are competing among themselves for intermediation, the developing countries reap the benefit. This may be seen in the terms and conditions which the most astute African states have secured in raising Euro-dollar credits in the later 1970s.

d) The operational modes of the transnationals have made governments and national institutions in Africa aware of the need for training and expertise, and this has led to the creation of facilities for basic education, training and research. Several such institutes, catering for insurance needs, have been set-up in East and West Africa, and also university institutes for actual training as in Nigeria.

B. Negative aspects

179. a) The interests of the host country have always been secondary to the interests of the home country or expatriate business house.

b) Profit maximisation is dominant, which may entail the closure of entities not considered profitable enough by headquarters. The closure of retail banking CITIBANK in Liberia is an example of this. Similarly operations are concentrated in urban, more profitable areas, rather than in the rural areas where the bulk of African still live.

c) In the past, there was an outflow of much needed development funds by transfer pricing at rates which were disadvantageous to the host country; to help maximize profits. Wherever possible this still takes place, as a World Bank study on finance in the development of the Ivory Coast (December 1981) shows. 36/ Although there is an inflow of funds for lending, the amounts are fairly small, and the retention period short.

36/ Clausen, A.W., "Collective initiatives in the international trade and finance" (Statement to UNCTAD), p.7.

d) Funds both transnational and local, are concentrated in short-term, lower risk activities such as trade, rather than in real development of agriculture or manufacturing.

e) When large sums are required, syndicates are formed and these are often disadvantageous to developing countries: external credit can be exhorbitantly expensive, as the post 1976 Euro-dollar credits show.

f) The relationship with the transnational corporations is very close and investment financing is often directed more towards the profitable ventures of these corporations than towards the needs of the economy.

g) The activities of the transnationals, especially in insurance and re-insurance, have added to Africa's balance of payments problems.

VIII. CONCLUSIONS AND RECOMMENDATIONS

180. Transnational banks and financial institutions are an integral part in the essential transfer of finance, technology and co-operations from the developed world to the developing countries, for their advancement. These, inputs must be paid for, but it is imperative to ensure that the price is just and reasonable and that the resources and expertise are used in the best interests of the social and economic objectives of the state concerned. It is necessary, therefore, to establish mechanisms at both national and regional levels for the continuous assessment of policy and activities so that, for example, the operation of the transnationals may be monitored and any necessary action taken. The information gap which exists at present, must be filled, particularly in the sphere of the interrelationships of financial and non-financial institutions, and data made freely available for scrutiny.

181. The lack of money markets and financial instruments has been shown to be a handicap. Such organisations as the Association of African Central Banks and the Economic Commission for Africa, could perhaps help to remedy the situation.

A. Central Banking Institutions

182. The two central banks and monetary unions of the Franc Zone of West and Central Africa, working with the assistance and guidance of the French government, have helped the 12 component countries to achieve a reasonable degree of monetary stability, both locally and in foreign exchange dealings, because of guaranteed convertibility with the Franc. The need for coordination, however, imposes restraints; monetary policy must be co-ordinated, which "places a greater burden on other policy instruments for maintaining balance of payments equilibrium, particularly on final, monetary and wage policy." 37/ It would perhaps be useful, to have an impartial analysis of the workings and effects of the unions and of their relationships with France, in order to define any operational and procedural alterations, beneficial to the members.

37/ World Bank, Finance in the development of the Ivory Coast, Report, 1981

183. Liberian dependence on the US dollar as currency has created enormous problems, particularly over the last four years. The World Bank has stated that there can be no significant change unless the government plays an active not a passive role in this sector. The Liberian government, however, fears that any change in the currency system will adversely affect the present economic structure and the prospects for future development. There is need for an in-depth study followed by advice to government, possibly from UNECA or the Association of African Central Banks.

184. Similarly, there is a need for a study of the different options for change open to Lesotho and Swaziland.

B. Commercial Banks

185. In spite of the growth of national banking and legislation to control foreign banks, "after two decades of independence, the nature of banking in Africa remains little changed; dominated by a few large international banks and orientated towards the needs of the international rather than the national economy" 38/. Changes in the ownership or managerial structures have been ineffective in reducing the dominance.

186. The transnationals enjoy considerable confidence in many countries; for example, in Nigeria, the parastatals bank with transnational affiliated banks. Governments and parastatal organisations must bank nationally. By the enforcement of strict controls, the quality of service in national banks should be raised, and public confidence in them created; only quality banking can compete with the transnationals. At the same time, political influence should be eliminated, so that banks operate purely on sound business principles. Furthermore, impartial analysis to determine weaknesses and suggest future development would be useful.

187. It is thought desirable, to contain the further development of the transnational affiliates, to give the national banks a larger share, certainly of the domestic market. To this end, the policies of freezing the numbers of branches for transnationals and encouraging nationals to open new branches and spread into the rural areas, could be expanded.

i) Domestic operations

188. In some areas, national bank development has been helped by the introduction of regulations on liabilities and assets: for example, restrictions on the acceptance by the transnationals of savings deposits and Government deposits seem to have been effective, since these constitute a large proportion of total deposits. "These restrictions have either encouraged transnational banks to bring in more funds from abroad, or caused them to diversify into innovative ... activities." 39/

38/ World Bank, Finance in the development of the Ivory Coast, Report 1981.

39/ World Bank, Accelerated development in Sub-Saharan Africa: An Agenda for action, August 1981, paragraphs 4.5 - 4.6.

189. The treatment of assets by the transnationals have not always been to the advantage of the host economies because of the weighting towards short-term investments, largely in trade and concrete. Even where credit is extended to less favoured areas, under pressure, as in Nigeria, the investment has little impact; for example, investment in agriculture,is usually in marketing or intermediary co-operatives, rather than to the producers themselves, on the basis that they "are not suited to lend for the small and short-term needs of the African farmers". 40/ Low profit margins explain the slow development of agricultural credit. Similarly in mining and manufacturing loans have been to the transnational corporations, rather than to basic level production; to foreign enterprises rather than to those locally owned; and to large-scale concretes rather than small-scale ones, which are then obliged to seek more expensive credit elsewhere. Furthermore, figures showing " a high proportion of loans given to manufacturing can be misleading if the manufacturing is tantamount to mere assembling". 41/

190. National banks follow the same tending policies as the transnationals, partly because of competitive pressure and partly because of a lack of policy guidelines. Thus, in spite of publicity about financing agriculture, the branches are mainly in urban areas. Where high returns can be obtained from offering consumer credit. "The state bank have been co-opted into the traditional world and related credit-worthiness standards." 42/ The credit distributions of the nationalised banks of Ethiopia and Tanzania are good examples.

191. The transnationals attempt to pursue their own policies, whatever host guidelines are introduced; for example, in Nigeria funds were surrendered instead of extending credit in ways favoured by the Central Banks. Further, it is often argued that the banking legislation itself does not permit a higher proportion of medium- and long-term investment, and since most deposits are short-term, then the utilisation of funds should follow the same pattern. In Nigeria, however, it is understood that an amendment to banking legislation is under consideration, to enable and indeed oblige commercial banks to lend for longer periods.

192. Throughout Africa, regulatory measures to increase term loans can and should be worked out and enforced. In Malaysia, when term loans were substituted for overdrops, the proportion of such loans increased from 12 per cent to 32 per cent; a similar approach could perhaps be tried. Other measures to divert funds into longer term investment are also possible, based on the proportions of current, savings and term deposits. The pattern of portfolio composition of the parent companies could be made obligatory in their affiliates and branches. Lastly, any loopholes by which regulations are avoided must be closed, so that funds are made available for the real

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40/ Finance and Banking, Cambridge Encyclopaedia of Africa, (CUP 1981), p. 37.

41/ United Nations Commission on Transnational Corporations, "The Regulation of Transnational Banks in Developing Countries", (E/C.10/1982/13), (1981) p. 25.

42/ Finance and Banking, Op.Cit, p. 370

197. Most of the available information on debt inflows and outflows refer to public debt. As the IMF publication 46/ bears out, there is very little information on private debt. This aspect is not given due emphases in the balance of payments statistics compiled by the various central banks, nor in IMF published statistics, for although the majority of debt stems from the public sector, private debt assumed much greater proportions during the 1970s, with consequent increase in the outflow of resources. Even though the exchange control mechanisms are used, they do not record information on inflows or outflows over time. Such information is essential to the handling of the debt problem, and each country should, in their own interest, compile accurate figures.

198. Foreign private investment by the transnationals often includes a debt element. Debt-equity ratios are very important in outflows, since debt is a multiple of equity. In the Liberian mining industry, debt constituted 70 per cent of the investment; this debt had to be serviced first, by the remittance of interest and the repayment of loan within the first few years; this led to huge outflows. A similar situation probably exists throughout the mining investment sector in Africa and it is likely to be even more evident with the shift of investment from mining to manufacturing, since this sector is thought easier to handle. A close scrutiny of private sector inflows and outflows and their effect on the balance of payments should be undertaken before approving foreign investments.

C. Merchant banks

199. Although of minor importance at present merchant banks are useful institutions for development. On their establishment in the late 1960's and early 1970's they aimed to become development intermediaries, but it is also likely that, through them, the parents hoped to circumvent some of the handicaps of commercial banking. Unfortunately, the world and national economic situations have impeded their true development, so that they function in a similar way to the commercial banks.

200. It would be desirable for the relevant countries to examine thoroughly their merchant banks, with a view to regulating them, so that they are able to fulfill their specialised functions. Similarly, the authorities should examine the commercial bank encroachment onto merchant banking by the duplication of services; each institution should develop its own specialisations.

D. Development banks and investment finance institutions

201. The role of the development banks in development has not so far been very satisfactory, probably because of the lack of resources, expertise and viable projects. The flow of resources from the commercial banks should be enforced, but it is also up to the development banks themselves to develop suitable instruments and evolve ways of tapping resources directly. They could also involve themselves in viable project preparation and promotion. Regional development resources to the national development banks. At the same time, the lack of interest of the transnational partners heeds analysis, to define the scope for making them more fruitful, without sacrificing socio-political objectives.

46/ Odle, Op. Cit, p. 158

E. Insurance and re-insurance

202. In most developed countries, life insurance is a major source of savings. African countries, however, do not do enough to encourage this type of insurance, which could be used for development investment.

203. Motor vehicle cover, largely through national institutions, dominates non-life insurance, but it is not profitable, having high rates and, a high claims ratio. There is an obvious need for adjustment.

204. In orther categories of insurance, countries should take steps to enable their domestic insurance companies to cover the insurance operations generated by their economic activities, including their foreign trade, as far as technically feasible." 47/ The localization of import insurance as recommended by UNCTAD should be a high priority.

205. "The purchase of direct insurance is current in the fields of large and technological risks, marine hull aviation and large engineering works". 48/ Most African insurance companies do not underwrite these categories of risk, mainly because they haven't the expertise to assess the risk, and they screw the foreign exchange implications, since foreign exchange is scarce. The development of skills allowing the underwriting of these risks locally is very important, for even if the bulk is re-insured abroad initially, there are some earnings in the form of commission, and a portion of the premium can be retained nationally. The amounts retained can be gradually increased, and reciprocal insurance bargained for.

206. Crude oil is a very important export, especially from Nigeria, yet all the insurance for it is done by the importers, usually the developed countries. The African exporting countries should have at least a portion of the business, as they should also get a share on all export insurance, at least on a reciprocal basis.

207. Reciprocal business in re-insurance has made wide progress; the business level of the African Re-insurance Corporation is very low. Yet India has developed this sector very satisfactorily, thus cutting the outflow of resources on re-insurance. Africa should be able to work towards attaining the same goal within a reasonable period.

208. Similarly, post development is also slow, as shown by the experiences of the Nigerian Re-insurance Corporation, and the Afro-Asian re-insurance pools; there is a need for analysis and corrective action.

209. The African re-insurance Corporation, after six years, has not been able to make a profit or build up reserves, although this is partly attributable to the foreign exchange operations of member countries. In 1982, it incurred a loss of US$5 million, because of the exchange fluctuations and delays in premium remittance by companies in various countries. Capital remains almost constant at approximately US$5 million. It is up to the member states to remedy the situation; that alone will ensure bargaining strength with the transnationals, on re-insurance and reciprocal business.

47/ United Nations Commission on Transnational Corporations, "Transnational Banks: Operations, strategies and their effects in developing countries, (ST/CTC/13), (1981) p. 18.

48/ International Monetary Fund, "World Economic Outlook" 1983, p. 107.

210. At the same time as Africa is failing to expand, other subregional re-insurance corporations are being floated, so dissipating effort, effort, and yet it is essential that re-insurance develop as a self sustaining entity within a reasonable time.

211. The answer would appear to be in legislation, regulation and the supervision of investments. If Nigeria, as the largest insurance market, is an indication, then the proportion of reserves invested in long-term development is small; the greater liquidity of short-dated and government securities being thought preferable. Greater resources must be diverted to long-term needs, By the development of a well planned, co-ordinated investment pattern.

212. According to UNCTAD, "the actual operational conditions for foreign companies incorporated locally are not clearly defined. Often the result is that re-insurance transactions between the domestic company and the controlling company abroad are not by independent business decisions, but rather by corporate strategies adopted by financial group. Similarly, investment decisions flowing out of these re-insurance transnationals may not be made independently." 49/ There is obvious scope for remedial action, by instituting and exercising control over the 'captive' institutions.

213. UNCTAD recommended a unified international system of accounting and keeping statistics, the adoption of which would be of considerable help both in saving problems and to the policy makers in defining future action.

F. Other financial institutions

214. In order to avoid control, the transnationals have diversified their interest; for example into finance companies to meet consumer needs. Since no information is available, it is difficult to judge the extend and impact on the economies but it would obviously benefit the countries to bring these activities neither the control of the central banks. The traditional institutional structures in countries should be used to the maximum, under the aegis of the central banks, to determine the priorities of development and prevent distortions of the transnationals, such as the vehicle finance companies set up in Francophone countries by the automobile importers, especially to help the African bourgeoisie finance the purchase of imported cars. 50/

49/ United Nations Commission for Trade and Development, Resolution No. 42/iii, Santiago, May 1972.

50/ UNCTAD, "Localisation of insurance in Third World Countries", Fair Review, September 1982, p. 7.